

Magellan Financial Group Limited
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18 February 2016

ASX Limited
ASX Market Announcements Office
Exchange Centre
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**INTERIM REPORT AND FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

Magellan Financial Group Limited (**MFG**) hereby lodges:

1. Appendix 4D Statement for the half year ended 31 December 2015; and
2. Interim Report for the half year ended 31 December 2015, incorporating the Chief Executive Officer's Interim Letter and interim financial statements.

Yours faithfully,



Geoffrey Stirton
Company Secretary

Appendix 4D

Half Year Report

For the half year ended 31 December 2015

Name of entity

Magellan Financial Group Limited

ACN	Reporting period	Previous corresponding period
108 437 592	1 July 2015 to 31 December 2015	1 July 2014 to 31 December 2014

Results for announcement to the market

	Change from the corresponding period	31 Dec 2015 \$'000
Total revenue ("revenue from ordinary activities")	Up by 42% to	\$182,163
Net operating profit for the year ("profit from ordinary activities after tax attributable to members")	Up by 41% to	\$109,335
Total comprehensive income ("net profit for the period attributable to members")	Up by 23% to	\$113,891

Commentary on results

Refer to the attached Interim Financial Report and the Chief Executive Officer's Interim Letter. Additional Appendix 4D disclosure requirements can be found in the notes to these financial statements.

Interim dividend

	Amount per security	Franked Amount per security
Interim Dividend (to be paid on 4 March 2016)	51.3 cents	51.3 cents
Previous comparative period	37.1 cents	37.1 cents
Final dividend dates:		
Ex-dividend date:	Tuesday 23 February 2016	
Record date:	Thursday 25 February 2016	
Payment date:	Friday 4 March 2016	

There is no dividend reinvestment plan in operation in respect of the interim dividend.

Net tangible assets per share

31/12/2015	\$2.12 (diluted for the MFG 2016 Options and the conversion of the Class B Shares)
30/6/2015	\$1.78 (diluted for the MFG 2016 Options and the conversion of the Class B Shares)

Earnings per share

	31 Dec 2015	31 Dec 2014
Basic earnings per share	68.1 cents	48.6 cents
Diluted earnings per share ^(A)	63.7 cents	45.3 cents

^(A) For the half years ended 31 December 2015 and 2014, both the Class B Shares and MFG 2016 Options are considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive.

Details of entities over which control has been gained during the year

On 3 August 2015, MFG Group held 100% of MFG Services LLC, a limited liability company formed in Delaware in the United States of America. Refer to note 9 of the Interim Financial Report for further details.

Financial report

This report is based on the 31 December 2015 Interim Report (which includes the consolidated financial statements) and has been reviewed by Ernst & Young.



MAGELLAN
FINANCIAL GROUP

Interim Financial Report

for the half year ended 31 December 2015

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

Contents

Chairman's Report.....	2
Chief Executive Officer's Interim Letter.....	3
Directors' Report.....	11
Auditor's Independence Declaration.....	13
Consolidated Statement of Profit or Loss	14
Consolidated Statement of Other Comprehensive Income.....	15
Consolidated Statement of Financial Position.....	16
Consolidated Statement of Changes in Equity	17
Consolidated Statement of Cash Flows	18
Notes to the Financial Statements.....	19
Basis of Preparation	
1 Summary of Significant Accounting Policies.....	19
Results for the Year	
2 Segment Information.....	22
3 Earnings Per Share.....	25
4 Dividends	26
5 Income Tax	26
6 Revenue.....	27
Group and Capital Structure	
7 Financial Assets.....	29
8 Fair Value Measurements	30
9 Controlled Entities and Interests in Other Entities.....	32
10 Contributed Equity	33
Other Items	
11 Contingent Assets, Contingent Liabilities and Commitments	35
12 Events Subsequent to Reporting Date	35
Directors' Declaration.....	36
Independent Review Report	37
Corporate Information	39

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FINANCIAL GROUP

Chairman's Report for the half year ended 31 December 2015

Dear Shareholders,

We are pleased to report further strong progress in the development of our business over the first half of the 2015-16 financial year. Our financial results continue to be excellent with diluted earnings and fully franked dividends per share increasing 41% and 38% respectively over the same time last year. Furthermore, our team's skills and experience have advanced meaningfully as we have grown, learnt and improved.

Most importantly, our disciplined investment processes led by our CEO and Chief Investment Officer, Hamish Douglass, has delivered our clients solid results consistent with our stated objectives. Hamish has written a detailed letter which follows. We encourage you to read this and the financial statements that accompany it, as they contain important information about our business.

Additionally, we would also encourage you to read our Fund Reports and Investor Letters which provide valuable insight into our investment strategies and portfolio managers' thoughts. These can be found on our website: www.magellangroup.com.au.

In this letter last year we pointed out that we look to act as long term rational business owners and as such we rank our clients ahead of shareholders. We remain steadfastly focused on delivering for our clients – solid long term investment performance in line with our stated objectives, excellent overall service, and thoughtful solutions that meet our customers' needs.

This is exemplified by our global listed infrastructure investment strategy. The team managing the strategy has refined and developed their investment processes and has delivered outstanding overall results that have materially outpaced relevant benchmarks. Very importantly, they have delivered these results by following a disciplined strategy that has produced outcomes that align with the stated objectives.

Central to our global listed infrastructure investment approach has been a key question: what is the appropriate definition of infrastructure? By defining the types of infrastructure the investment strategy would consider (for example, those producing sustainable and predictable cash flows without undue input pricing or political risks), the team has well demonstrated that knowing where not to go is just as important as knowing where to go.

A critical aspect of our investment processes, as it is in our broader business, is to minimise our mistakes. Unforced errors are not just harmful in sport. Defining our circle of competence is extremely important, as understanding its boundaries provides an opportunity to increase our probability of success and reduce our errors. As Charlie Munger wryly hammers home the point, not only does he want to shoot fish in a barrel, he would like the water drained out too please.

The same goes for the development of our overall business. We are focussed on ensuring Magellan evolves in a manner that provides the best chance of establishing competitive advantages to deliver positive outcomes for our clients, and meaningful engagement and development prospects for our team.

We continue to review and develop our thinking in this regard, and look forward to reporting our progress to you again in our annual report.



Brett Cairns
Executive Chairman

18 February 2016

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Chief Executive Officer's Interim Letter for the half year ended 31 December 2015

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the half year ended 31 December 2015.

OVERVIEW OF RESULTS

The Group had a successful first half which was characterised by continued strong growth in funds under management (which increased by 9% from \$36.4 billion to \$39.7 billion for the six months to 31 December 2015) and strong growth both in earnings and interim dividend.

For the half year ended 31 December 2015:

- Average funds under management increased by 44% to \$38.8 billion (\$27.0 billion for the six months to 31 December 2014);
- the Group's net operating profit after tax increased by 41% to \$109.3 million (\$77.4 million for the six months to 31 December 2014);
- fully diluted earnings per share increased by 41% to 63.7 cents (45.3 cents for the six months to 31 December 2014); and
- the interim dividend increased by 38% to 51.3 cents fully franked (37.1 cents for the half year ended 31 December 2014)

The Directors have declared an interim fully franked dividend of 51.3 cents per ordinary share in respect of the half year ended 31 December 2015 (37.1 cents per ordinary share for the half year ended 31 December 2014). The interim dividend will be paid on 4 March 2016. The Directors have confirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the calculation to include any crystallised performance fees. Performance fees fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations.

The following table summarises the Group's profitability over the past two December half year periods:

	31 Dec 2015 \$'000	31 Dec 2014 \$'000	Change %
Management, performance and services fees	175,467	125,691	40%
Other revenue	6,696	2,794	140%
Revenue	182,163	128,485	42%
Expenses	(39,197)	(25,228)	55%
Profit before tax expense	142,966	103,257	38%
Tax expense	(33,631)	(25,849)	30%
Profit after tax expense	109,335	77,408	41%
Effective tax rate	23.5%	25.0%	
Key Statistics			
Earnings per share (cents per share)	68.1	48.6	40%
Diluted earnings per share (cents per share)	63.7	45.3	41%
Interim dividend (cents per share, fully franked)	51.3	37.1	38%

As at 31 December 2015, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents, financial assets and investment in associate) of \$313.1 million (30 June 2015: \$283.6 million) and shareholders' funds of \$361.8 million (30 June 2015: \$303.4 million); and
- the Group's NTA per share diluted for MFG 2016 Options and the conversion of the Class B Shares was \$2.12 (30 June 2015: \$1.78).

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Funds Management Business

For the half year ended 31 December 2015, the Group's funds management business generated revenues of \$176.3 million (\$126.3 million for the six months to 31 December 2014) and had expenses of \$37.2 million (\$24.6 million for the six months to 31 December 2014), which resulted in a profit before tax of \$139.1 million (\$101.7 million for the six months to 31 December 2014). Revenue included performance fees of \$42.8 million (\$32.6 million for the six months to 31 December 2014). Performance fees fluctuate significantly from period to period.

The highlights for our funds management business include:

- solid performance of the Magellan Global Fund which returned 15.3%, after fees, over the 12 months to 31 December 2015, outperforming the MSCI World Net Total Return Index (AUD) by 3.8%;
- solid performance of the Magellan Infrastructure Fund which returned 10.6%, after fees, over the 12 months to 31 December 2015, outperforming the Global Listed Infrastructure benchmark⁽¹⁾ by 16.0%; and
- record average monthly retail net inflows during the period of \$214 million (\$123 million for the six months to 31 December 2014). The increased average monthly retail net inflows include the benefits of the launch of the ASX quoted version of our Global Equities strategy, Magellan Global Equities Fund on 2 March 2015, and entering into new arrangements with AMP and BT/Westpac who have launched new funds on their respective platforms replicating the Magellan Global Fund. As at 31 December 2015 the combined funds under management of the Magellan Global Equities Fund and the replica funds on the AMP and BT/Westpac platforms was approximately \$800 million.

The following table summarises the profitability of the funds management business over the past two first half year periods:

	31 Dec 2015 \$'000	31 Dec 2014 \$'000	Change %
Revenue			
Management fees	128,295	89,636	43%
Performance fees	42,815	32,630	31%
Services fees	4,357	3,425	27%
Interest and other income	833	576	45%
	176,300	126,267	40%
Expenses			
Employee expense	21,542	14,651	47%
US marketing and consulting fees ⁽²⁾	3,681	2,269	62%
Fund administration and operational costs	3,548	2,963	20%
Information technology expense	1,862	988	88%
Foreign and withholding taxes	2,106	6	nm
Other expense	4,416	3,673	20%
	37,155	24,550	51%
Profit before tax expense	139,145	101,717	37%
Key Statistics			
Average funds under management (\$ million)	38,836	27,010	44%
Average AUD/USD exchange rate ⁽³⁾	0.7231	0.8905	
Average number of employees	96	75	28%
Employee expenses / total expenses	58.0%	59.7%	
Cost / income	21.1%	19.4%	
Cost / income, excl. performance fees	27.8%	26.2%	
Net assets (\$'000)	91,234	74,330	23%

Revenues increased by 40% to \$176.3 million driven by a 40% increase in total management and performance fee revenues as a result of a 44% increase in average funds under management over the period due to strong net inflows and investment performance. Investment performance and funds under management benefited from the lower Australian dollar over the period.

(1) The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

(2) Pursuant to the agreement, Frontier Partners is entitled to receive 25% of net management fees from Frontier MFG Funds and 20% of management fees from all institutional mandate clients in the US and agreed institutional mandate clients in Canada.

(3) Based on daily average of London 4pm exchange rates of the six month period.

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Expenses increased by 51% to \$37.2 million which led to a marginal increase in the cost to income ratio (excluding performance fees) to 27.8% in the first half compared with 26.2% for the six months to 31 December 2014. The increase in expenses included:

- a 47% increase in employee expense over the prior corresponding period to \$21.5 million for the six months to 31 December 2015. We note that employee expense increased by 30% compared with the six months to 30 June 2015. This reflects the weighting of employee expense increases in the second half of last financial year. We are expecting second half employee expenses to be broadly in line with the first half. We therefore expect that total employee expenses for the 2015/16 financial year will increase by approximately 35%, which is at the high end of the guidance provided in August. This is primarily due to an increase in the US dollar relative to the Australian dollar, which increases US employment costs in Australian dollars and slightly higher than budgeted incentive compensation due to strong financial performance in the first half of the year. At 31 December 2015 the Group had 100 employees (31 December 2014: 80);
- a 62% increase in US marketing fees to \$3.7 million due to higher management and performance fees from US clients;
- an 88% increase in IT costs to \$1.9 million primarily related to the implementation of new IT projects; and
- an expense of \$2.1 million for US state taxes and withholding taxes. This includes a provision for prior year taxes that have not been provided for previously.

During the period, we made four further Analyst hires as we increase the size of the Investment team to develop additional capability and to provide flexibility for extensions of our investment products in the years ahead. We have now largely completed the build out of this team. We also made two key senior hires in our Infrastructure team to add further strength to this business.

We have also made an additional hire in the Distribution team in North America as we build our presence in this key market.

The following table sets out total employee numbers:

	31 Dec 2015	30 Jun 2015	31 Dec 2014
Investment			
- Portfolio Managers/Analysts	34	29	29
- Dealers	3	3	2
	37	32	31
Governance & Advisory	4	4	3
Distribution	23	21	18
Risk, Compliance & Company Secretarial	4	5	3
Business Support & Control	25	23	20
Administration	7	6	5
Total	100	91	80
Average number of employees	96	80	75

The Group has entered into a new lease agreement for its Sydney head office, commencing March 2017 for a 10 year lease term. The incremental occupancy expense over and above the Group's current head office premises is approximately \$1.4 million per annum from the commencement of the lease. This excludes incremental depreciation and amortisation expense relating to the head office fitout. The Group is anticipating to relocate prior to 30 June 2016 and expects to incur one-off pre-tax costs of approximately \$1.1 million relating to the relocation, falling in the second half of this financial year. The Group's current Sydney lease ends in March 2017.

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Funds Under Management (FUM)

At 31 December 2015, the Group had funds under management of \$39.7 billion, split between global equities (85%) and infrastructure equities (15%). This compares with funds under management of \$36.4 billion at 30 June 2015. The increase in funds under management was driven by net inflows of \$2.1 billion, investment performance of \$2.0 billion less cash distributions (net of reinvestment) of approximately \$0.8 billion.

The following table sets out the composition of funds under management:

\$million	31 Dec 2015	30 June 2015	31 Dec 2014
Retail	11,429	9,809	8,354
Institutional			
- Australia/New Zealand	3,495	3,871	3,652
- North America	9,507	8,462	6,777
- Rest of World	15,222	14,239	12,842
	<u>28,224</u>	<u>26,572</u>	<u>23,271</u>
Total FUM	39,653	36,381	31,625
Percentage			
Retail	29%	27%	26%
Institutional			
- Australia/New Zealand	9%	11%	12%
- North America	24%	23%	21%
- Rest of World	38%	39%	41%
	<u>71%</u>	<u>73%</u>	<u>74%</u>
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	37%	37%	37%
Institutional FUM (%)			
- Active	85%	85%	84%
- Enhanced Beta	15%	15%	16%
Breakdown of FUM (A\$ million)			
- Global Equities	33,769	31,015	26,809
- Global Listed Infrastructure	5,884	5,366	4,816
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁴⁾	66	66	66

It should be noted that our retail business has higher fees than our institutional business and our infrastructure enhanced beta product has lower fees than other institutional mandates.

As we have indicated previously, we consider that the theoretical capacity of our Global Equities and Global Listed Infrastructure strategies is approximately US\$50 billion in total. We carefully take into account the investment universe, the market capitalisation established for the strategy and liquidity requirements in ascertaining the theoretical capacity of each of our strategies. This theoretical capacity is not static and should be approximately indexed to changes in the values of world equity markets over time. Broadly this theoretical capacity should be indexed for world market movements from 1 July 2013, subject to the impact of price movements on our investment universe.

As mentioned previously, we have increased the size of our Investment team; this may lead to the development of new related global equity products in the future. These would be incremental to the theoretical capacity of the Group's existing products.

At 31 December 2015, the Group was managing \$39.7 billion (equating to approximately US\$28.8 billion). It should be noted that the above capacity numbers are purely theoretical and should in no way be taken as a forecast or indication as to the level of funds under management the Group may have in the future.

Retail Funds Under Management

At 31 December 2015, the Group had total retail funds under management of \$11.4 billion. We experienced total net retail inflows of \$1.3 billion for the six months to 31 December 2015, compared with \$0.7 billion for the half year to 31 December 2014. The Group experienced average monthly retail net inflows of approximately \$214 million over the six months to 31 December 2015, compared with \$123 million over the previous corresponding six month period.

(4) Calculated using management fees (excluding services and performance fees) for the relevant period divided by the average of month end FUM over the same period.

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The increase in retail net inflows over the past six months is largely attributable to the traction gained in the Group's ASX quoted funds and across the institutionally aligned advice firms:

- we are seeing strong support from our new arrangements with AMP and BT/Westpac in addition to our longstanding relationship with Colonial First State (operated by Commonwealth Bank). As at 31 December 2015 funds under management in our replica versions of the Magellan Global Fund available at Colonial First State, AMP and BT/Westpac was \$1.8 billion;
- as at 31 December 2015, the Magellan Global Equity strategy was represented in over 120 model portfolios across the AMP Group, BT/Westpac and the Commonwealth Bank; and
- our ASX quoted funds, the Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) had net inflows of \$223 million over the six months to 31 December 2015 and average monthly net inflows of approximately \$37 million. The combined funds under management from these two funds was \$459 million as at 31 January 2016 and the combined number of unitholders was over 8,500.

We believe we are developing a robust retail business in Australia and New Zealand focused on global equities and global infrastructure that should benefit from the secular trends of compulsory superannuation over the years ahead. We have:

- relationships with over 500 independent financial advice firms⁽⁵⁾;
- strong relationships and extensive representation with 4 of the top 6 major institutionally aligned advice firms (Commonwealth Bank, BT/Westpac, AMP and IOOF). Collectively, these firms have approximately 6,800 aligned advisers;
- an ASX quoted version and unlisted version of the Magellan Global Fund. The funds are available as currency hedged and currency unhedged;
- separate versions of the Magellan Global Fund available at Commonwealth Bank, BT/Westpac and AMP. Each of these funds will have strong model portfolio representation across these groups;
- developed strong relationships with each of the key research firms and have strong ratings from Zenith, Lonsec and Morningstar;
- a highly experienced Australian and New Zealand relationship focussed Distribution team with 11 account managers and offices in Sydney, Melbourne, Brisbane and Auckland;
- increased the focus on our successful Global Listed Infrastructure strategy by making some key hires in this team; and
- targeted to launch an ASX quoted version of our Global Listed Infrastructure strategy in the second half of 2015/16.

The following table sets out the investment performances of the Magellan Global Fund, the Magellan Infrastructure Fund and the Magellan High Conviction strategy since their inception:

Investment Performance for the period to 31 December 2015 ⁽⁶⁾	1 Year	3 Years	5 Years	Since Inception ⁽⁷⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	15.3	25.2	20.6	11.9
MSCI World NTR Index (\$A)	11.5	23.4	15.2	4.4
Magellan Infrastructure Fund	10.6	16.8	15.4	7.9
Global Listed Infrastructure Benchmark (\$A) ⁽⁸⁾	-5.4	11.3	9.5	4.1
Magellan High Conviction Strategy	13.6	27.2	-	27.2

(5) Includes Dealer Groups that have more than \$200,000 funds under management with the Group.

(6) Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised performance is denoted with "p.a." for the relevant period.

(7) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the inception date for Magellan High Conviction Strategy is 1 January 2013.

(8) The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

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The Group's Global Equity strategy focuses on high-quality/low volatility and we have clearly communicated the nature of this approach to our clients.

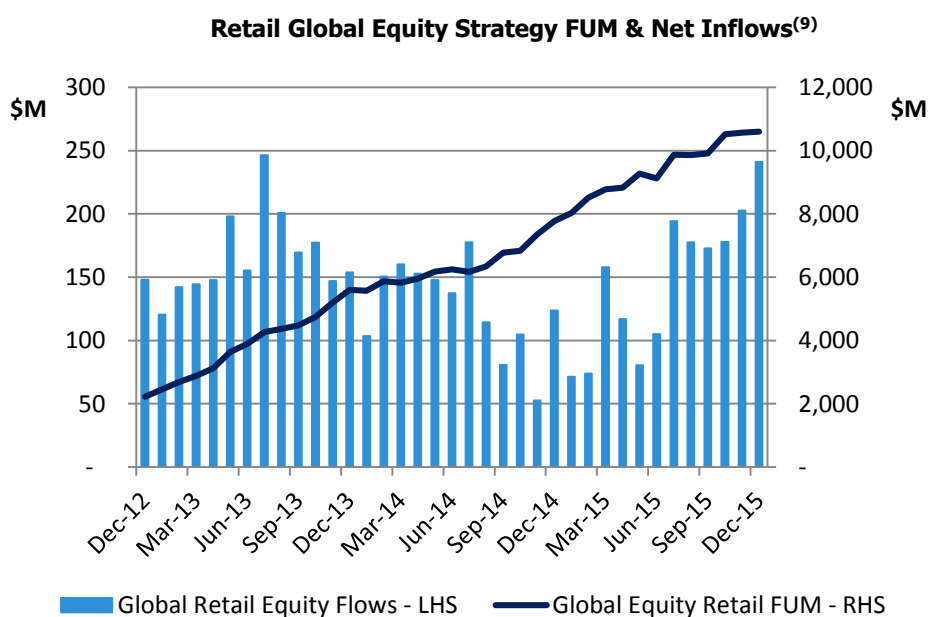
We are pleased with the results to date with fund investment performances near the top of their peer groups when measured over three and five years. Given our medium to long term focus, however, it is not unreasonable to expect some periods when the funds will lag their benchmarks. Further, given our focus on high-quality/low volatility investments, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility. Over the cycle, however, we believe the strategy will produce an appropriate risk adjusted performance while maintaining our focus on capital preservation, particularly in adverse market conditions.

Extremely pleasing is the performance of our Global Listed Infrastructure strategy over the last 12 months. This strategy has outperformed its benchmark by 16% in the last 12 months in what have been challenging investment markets and is a testament to the way in which the team defines "infrastructure".

These are key tenets of the Group's approach that we believe are well understood by the adviser community and our clients.

The retail component of the Global Equity strategy⁽⁹⁾ had funds under management of approximately \$10.6 billion at 31 December 2015. The retail Global Equity strategy experienced total retail net inflows of \$1.2 billion and average monthly retail net inflows of approximately \$194 million over the six months to 31 December 2015. This compares with the retail Global Equity strategy's total net inflows of \$0.6 billion and the average monthly retail net inflows of \$109 million over the six months to 31 December 2014.

The following chart sets out the monthly retail net inflows into the Global Equity strategy over the past three years:



Retail inflows have generally been seasonal (January, June and July tend to be the weakest months) and can be lumpy, due to events such as winning a new dealer group that transitions funds to the Group.

Institutional Funds Under Management

At 31 December 2015, the Group had total institutional funds under management of \$28.2 billion from more than 100 clients⁽¹⁰⁾. We experienced institutional net inflows of \$0.8 billion for the six months to 31 December 2015, which compares with net inflows of \$2.9 billion for the six months to 31 December 2014.

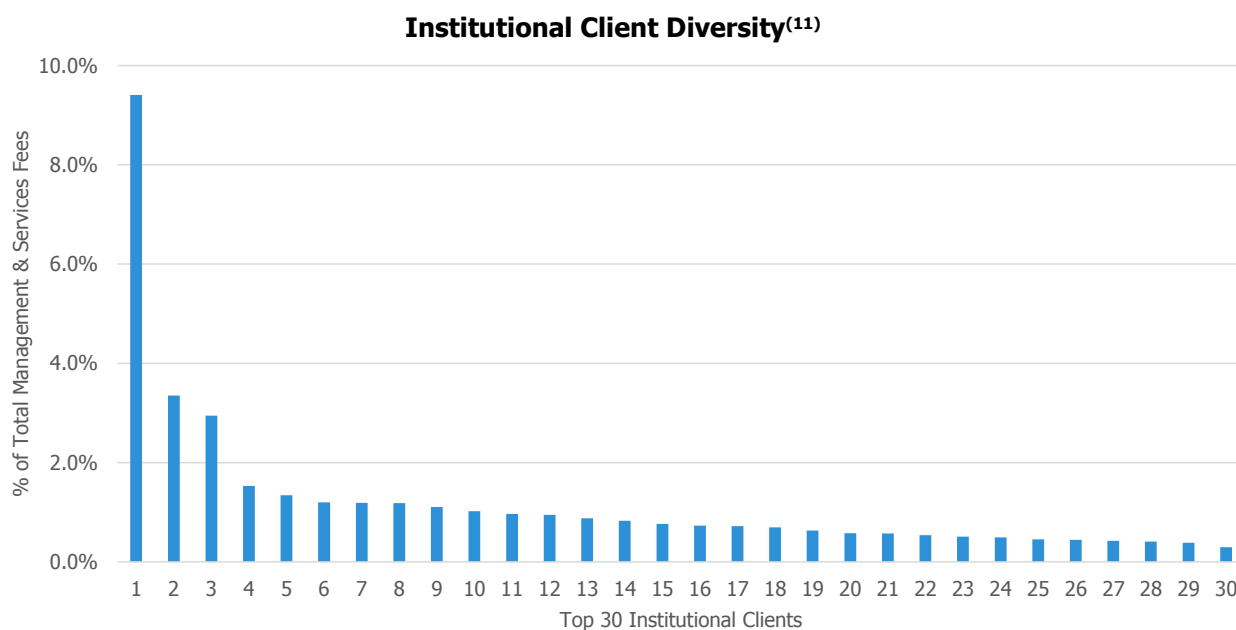
We are pleased with the quality and depth of our pipeline of potential new business and we are confident that we will see strong institutional interest in our global equities and global listed infrastructure capabilities.

⁽⁹⁾ The retail component of the Global Equity strategy includes Magellan Global Fund (retail portion), Magellan High Conviction Fund, Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund), Magellan Global Equities Fund (Currency Hedged) (quoted fund) and retail separately managed accounts for the Global Equity strategy.

⁽¹⁰⁾ The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

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The following table and chart sets out the percentage of management and services fee revenue generated by the top 30 institutional clients. The table highlights that our business is highly diversified by client with only three clients representing more than 2% of total management and services fee revenue.



Cumulative Total Management and Services Fees				
Top Institutional Clients	5	10	20	30
%	19	24	32	37

The development of the Group's institutional funds management business is progressing well, particularly in the United States and United Kingdom (UK).

For the six months to 31 December 2015, we experienced institutional net inflows of \$0.5 billion from clients in the United States, bringing the total funds under management to approximately \$8.3 billion (\$7.3 billion at 30 June 2015).

Our UK business remains strong. At 31 December 2015, the Group had total funds under management of approximately \$12.1 billion from clients in the UK (\$11.7 billion at 30 June 2015). At 31 December 2015 our important relationship with St. James's Place has grown to \$6.4 billion from \$6.1 billion at 30 June 2015. The UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy has funds under management of approximately \$3.0 billion at 31 December 2015 (\$2.9 billion at 30 June 2015).

We are also making steady progress in the Asia-Pacific region. At 31 December 2015, the Group had total funds under management of approximately \$4.4 billion from institutional investors in the Asia-Pacific region (\$4.5 billion at 30 June 2015). We remain focused on specific target markets in our region, primarily Australia and Singapore.

(11) Management & Services fees for the six months to 31 December 2015 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

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Investments in Magellan's Funds and Principal Investments

At 31 December 2015, the Group had total net Principal Investments of \$212.3 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$189.4 million at 30 June 2015.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged), listed shares, a number of small unlisted investments and surplus cash after allowing for the Group's working capital requirements. We intend to allocate any surplus cash generated by the Group, after allowing for dividends of 75% to 80% of the net profit after tax from the Funds Management business, to Principal Investments.

Over time we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Principal Investments. We intend for the Group to maintain a very strong balance sheet including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event.

The Group's Principal Investments portfolio has returned pre-tax 14.9%, 24.9% and 20.9% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in Magellan Flagship Fund, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.3% per annum over the period 1 July 2007 to 31 December 2015. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

The following table sets out a summary of the Group's Principal Investments as at 31 December 2015:

MFG Group's Principal Investments

\$million	31 Dec 2015	30 Jun 2015
Cash	2.2	2.1
Magellan Unlisted Funds ⁽¹²⁾	146.8	127.6
Listed shares/funds ⁽¹³⁾	80.5	61.8
Other ⁽¹⁴⁾	0.3	12.4
Total	229.8	203.9
Deferred tax liability ⁽¹⁵⁾	(17.5)	(14.5)
Net Principal Investments	212.3	189.4
Net Principal Investments per share (cents)⁽¹⁶⁾	124.2	111.0

I would like to thank all my colleagues at Magellan for the outstanding job they have done over the years. It is a privilege to work with such an incredibly focussed and talented team of people.

Thank you for your ongoing interest and support of Magellan Financial Group Limited.

Yours faithfully,



Hamish M Douglass

CEO and Chief Investment Officer

18 February 2016

(12) Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Infrastructure Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund, the Frontier MFG Funds and Magellan Wholesale Plus Global Fund

(13) Magellan Listed Shares include MGF Plus Portfolio, Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) excluding receivables/payables (refer to footnote 14)

(14) Other comprises receivable/payables and unlisted funds and shares.

(15) Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward

(16) Based on the aggregate of 160,659,163 ordinary shares on issue at 31 December 2015 and 10,290,344 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 31 December 2015 (30 June 2015, it is based on 160,276,422 ordinary shares and 10,210,057 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2015)

MAGELLAN FINANCIAL GROUP

DIRECTORS' REPORT

for the half year ended 31 December 2015

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2015.

1.1 Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 Jan 2007
Hamish Douglass	CEO and Chief Investment Officer	21 Nov 2006
Robert Fraser	Non-executive Director and Senior Independent Director	23 Apr 2014
Paul Lewis	Non-executive Director	20 Dec 2006
Karen Phin	Non-executive Director	23 Apr 2014

1.2 Review of Operations

The Group's net operating profit after tax for the half year ended 31 December 2015 was \$109,335,000 (December 2014: \$77,408,000).

The Group is in a strong financial position and at 31 December 2015 reported:

- investment assets (cash and cash equivalents, financial assets and investment in associate) of approximately \$313,052,000 (June 2015: \$283,626,000) and shareholders' funds of approximately \$361,785,000 (June 2015: \$303,443,000); and
- NTA per share diluted for the MFG 2016 Options and the conversion of the Class B shares of \$2.12 (\$1.78 at 30 June 2015).

Please refer to the Chief Executive Officer's Interim Letter for further information on the Group's operations, including details on the Group's strategy and future outlook.

1.3 Dividends

The Directors have declared a fully franked interim dividend of 51.3 cents per ordinary share in respect of the half year ended 31 December 2015 (December 2014: 37.1 cents per share). The amount of the dividend expected to be paid on 4 March 2016, but not recognised as a liability as at 31 December 2015, is approximately \$82,418,000 (December 2014: \$59,292,000).

The Directors have affirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the NPAT calculation to include any crystallised performance fees, which may fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations.

1.4 Significant Changes in the State of Affairs

No significant changes in the state of affairs of the Group occurred during the half year ended 31 December 2015, other than those matters stated in this report.

1.5 Events Subsequent to the End of the Reporting Date

On 4 February 2016, the Group announced to the ASX its funds under management were \$39.6 billion as at 31 January 2016.

Other than the above and the interim dividend in respect of the half year ended 31 December 2015 discussed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

MAGELLAN FINANCIAL GROUP

DIRECTORS' REPORT

for the half year ended 31 December 2015

1.6 Rounding of Amounts

The Group is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

1.7 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

This report is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

Sydney
18 February 2016

AUDITOR'S INDEPENDENCE DECLARATION



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Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

As lead auditor for the review of Magellan Financial Group Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Magellan Financial Group Limited and the entities it controlled during the financial period.

Ernst & Young

Rita Da Silva
Partner
18 February 2016

MAGELLAN FINANCIAL GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the half year ended 31 December 2015

	Note	Consolidated Entity	
		31 Dec	31 Dec
		2015	2014
		\$'000	\$'000
Revenue			
Management fees	6(a)	128,295	89,636
Performance fees	6(b)	42,815	32,630
Services fees	6(c)	4,357	3,425
Interest income		1,022	1,316
Dividend and distribution income		339	700
Net gain on sale of available-for-sale financial assets		644	424
Net foreign exchange gain		730	354
Group's share of profit for the period MGE was an associate	9(b)	3,961	-
Total revenue		182,163	128,485
Expenses			
Employee expenses		21,567	14,682
Non-Executive Director fees		128	207
Fund administration and operational costs		3,590	3,000
US marketing/consulting fee expense		3,681	2,269
Marketing expense		1,318	1,422
Information technology expense		1,862	988
Legal and professional fees		965	670
Occupancy expense		486	411
Travel and entertainment expense		468	614
Auditor's remuneration		358	212
Depreciation and amortisation expense		170	80
Foreign and withholding taxes		2,106	6
Net loss on disposal of assets		-	7
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	9(b)	1,296	-
Other		1,202	660
Total expenses		39,197	25,228
Operating profit before income tax expense		142,966	103,257
Income tax expense	5	(33,631)	(25,849)
Net operating profit for the half year		109,335	77,408
Basic earnings per share	3	68.1 cents	48.6 cents
Diluted earnings per share	3	63.7 cents	45.3 cents

The Consolidated Statement of Profit or Loss is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME for the half year ended 31 December 2015

	Note	Consolidated Entity	
		31 Dec 2015 \$'000	31 Dec 2014 \$'000
Net operating profit for the half year		109,335	77,408
Other comprehensive income			
<i>Items that may or have been reclassified to profit or loss in future years, net of tax</i>			
Net changes in the fair value of available-for-sale financial assets		6,645	22,532
Net (gain)/loss on sale of available-for-sale financial assets		(644)	(424)
Net loss on deemed disposal of interest in associate - MGE	9(b)	1,296	-
Income tax benefit/(expense) on the above items		(2,741)	(6,667)
Other comprehensive income for the half year, net of tax		4,556	15,441
Total comprehensive income for the half year		113,891	92,849

The Consolidated Statement of Other Comprehensive Income is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

		Consolidated Entity	
		31 Dec	30 June
		2015	2015
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents		85,196	93,934
Financial assets	7	349	349
Receivables		78,126	54,850
Loans - share purchase plan		1,918	1,396
Prepayments		694	354
Total current assets		166,283	150,883
Non-current assets			
Financial assets	7	227,507	139,498
Investment in associate	9 (b)	-	49,845
Loans - share purchase plan		7,926	5,849
Property, plant and equipment		576	603
Total non-current assets		236,009	195,795
Total assets		402,292	346,678
Liabilities			
Current liabilities			
Payables		14,357	14,332
Income tax payable		9,977	16,471
Total current liabilities		24,334	30,803
Non-current liabilities			
Deferred tax liabilities		14,869	11,347
Provisions		1,304	1,085
Total non-current liabilities		16,173	12,432
Total liabilities		40,507	43,235
Net assets		361,785	303,443
Equity			
Contributed equity	10 (a)	108,512	103,477
Available-for-sale reserve		36,888	32,332
Retained profits		216,385	167,634
Total attributable to members of the Group		361,785	303,443
Total equity		361,785	303,443

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2015

Attributable to Equity Holders of the Consolidated Entity				
	Contributed Equity	Available-for-sale reserve	Retained Profits	Total
2015	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2015	103,477	32,332	167,634	303,443
Net profit for the half year	-	-	109,335	109,335
Other comprehensive income	-	4,556	-	4,556
Total comprehensive income for the half year	-	4,556	109,335	113,891
Transactions with owners in their capacity as owners:				
Issue of securities:				
- under share purchase plan (SPP)	4,631	-	-	4,631
- on exercise of MFG 2016 Options	310	-	-	310
- transaction costs arising on share issue	(10)	-	-	(10)
Dividends paid	-	-	(60,584)	(60,584)
SPP expense for the half year	104	-	-	104
Total transactions with equity holders in their capacity as equity owners	5,035	-	(60,584)	(55,549)
Equity - 31 December 2015	108,512	36,888	216,385	361,785
2014				
Equity - 1 July 2014	93,812	25,516	87,259	206,587
Net profit for the half year	-	-	77,408	77,408
Other comprehensive income	-	15,441	-	15,441
Total comprehensive income for the half year	-	15,441	77,408	92,849
Transactions with owners in their capacity as owners:				
Issue of securities:				
- under share purchase plan (SPP)	7,063	-	-	7,063
- on exercise of MFG 2016 Options	1,032	-	-	1,032
- transaction costs arising on share issue	(24)	-	-	(24)
Dividends paid	-	-	(34,628)	(34,628)
SPP expense for the half year	140	-	-	140
Total transactions with equity holders in their capacity as equity owners	8,211	-	(34,628)	(26,417)
Equity - 31 December 2014	102,023	40,957	130,039	273,019

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2015

	Note	Consolidated Entity	
		31 Dec 2015 \$'000	31 Dec 2014 \$'000
Cash flows from operating activities			
Management and services fees received		124,387	86,074
Performance fees received		16,351	1,460
Interest received		757	1,087
Dividends and distributions received		160	3,698
Tax paid		(39,509)	(17,533)
Payments to suppliers and employees (inclusive of GST)		(38,318)	(27,057)
Other revenue received		-	11
Net cash inflows/(outflows) from operating activities		63,828	47,740
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		1,841	3,022
Purchase of available-for-sale financial assets		(16,958)	(2,103)
Net matured term deposits classified as loans and receivables		-	(49)
Net cash flows from foreign exchange transactions		86	75
Payments for property, plant and equipment		(123)	(257)
Net cash inflows/(outflows) from investing activities		(15,154)	688
Cash flows from financing activities			
Issue of securities		1,283	2,422
Proceeds from repayment of share purchase plan loans		832	462
Dividends paid	4 (a)	(60,159)	(33,908)
Net cash inflows/(outflows) from financing activities		(58,044)	(31,024)
Net increase / (decrease) in cash and cash equivalents		(9,370)	17,404
Effects of exchange rate movements on cash and cash equivalents		632	279
Cash and cash equivalents at the beginning of the half year		93,934	82,868
Cash and cash equivalents at the end of the half year		85,196	100,551

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2015

1. Summary of Significant Accounting Policies

This condensed interim financial report is for Magellan Financial Group Limited (the "Company") and its controlled entities (the "Group") for the six months ended 31 December 2015.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

a) Basis of Preparation

The condensed interim report for the six months ended 31 December 2015 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 18 February 2016. The Directors have the power to amend and reissue the financial report.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2015 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2015 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

b) Changes in Accounting Policy, Accounting Standards and Interpretations

i) New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2015 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

ii) Accounting Standards and Interpretations Issued But Not Yet Effective

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2015 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

- **AASB 9: Financial Instruments (AASB 9), AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective 1 July 2018)**

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met.

AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. It also introduced a new expected-loss impairment model that requires credit losses to be recognised when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

At 31 December 2015, the Group continues to evaluate the recognition and disclosure requirements of this standard but does not anticipate it will have a material financial impact as the carrying values of its investments approximate fair value and the Group does not apply hedge accounting. The adoption of the standard is however expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income and may also impact the type of information disclosed in the notes to the financial statements.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

1. Summary of Significant Accounting Policies (continued)

b) Changes in Accounting Policy, Accounting Standards and Interpretations (continued)

ii) Accounting Standards and Interpretations Issued But Not Yet Effective (continued)

• AASB 15: Revenue from Contracts with Customers (effective 1 July 2017) (AASB 15)

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers. AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract (eg sales commissions) and those costs associated with fulfilling a contract.

At 31 December 2015, the Group does not anticipate there will be any material change to the timing or manner of recognition for management, services or performance fees as these fees are currently recognised as revenue only when they are highly probable and the revenue recognition for interest income is unaffected as it is excluded from AASB 15. However the recognition basis relating to the US marketing/consulting fee expense may change as it may be required to be capitalised and amortised over the life of the relevant investment management agreements. Capitalisation is only permitted when the costs are expected to be recovered. As a result, the Group continues to analyse the treatment of the marketing/consulting fee expense and the extent of information required to meet the additional disclosures required under AASB 15, so as to understand the extent of impact on the Group's systems, processes and controls.

• AASB 16: Leases (effective 1 July 2019) (AASB 16)

During January 2016, the IASB issued IFRS 16 *Leases*, which replaces the existing leases guidance in IAS 17 *Leases*. The AASB is expected to issue an Australian equivalent standard AASB *Leases*. AASB 16 would supercede the existing lease guidance in AASB 117 *Leases*. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

The Group will evaluate the recognition and disclosure requirements of this standard upon issuance by the AASB.

c) Rounding of Amounts

The Group is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, or in certain cases, the nearest dollar.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

1. Summary of Significant Accounting Policies (continued)

d) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the interim financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from estimates.

The main areas where a higher degree of judgement or complexity arises or where assumptions and estimates are significant to the Group's financial statements are:

- those set out in note 1(y) of the Group's financial statements for the year ended 30 June 2015; and
- income tax expense and related balances - Offshore Banking Unit: Magellan Asset Management Limited is an Offshore Banking Unit (OBU) which is subject to a concessional tax rate of 10% on certain income and expenses. For further details on the OBU refer to note 1(h) in the Group's financial statements for the year ended 30 June 2015.

In the Group's interim financial statements, the income tax expense and related balances have been estimated using the Group's composition of assessable offshore banking (OB) income over adjusted total assessable income for the half year ended 31 December 2015. This composition may however change and therefore only the Group's actual assessable offshore banking (OB) income over adjusted total assessable income for the full financial year ended 30 June can be used to determine the Group's effective income tax rate. Any change in the composition of assessable income will result in either a higher or lower general OB deduction for the full financial year ending 30 June 2016 and therefore change the Group's reported effective tax rate at 31 December 2015 (refer note 5).

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

2. Segment Information

The Group's business activities are organised into the following reportable operating segments for internal management purposes:

Funds Management

The funds management activities of the Group are undertaken by the controlled entities Magellan Asset Management Limited (MAM) and MFG Services LLC (MFGS). For further details on these entities refer to note 9.

The funds management activities undertaken by MAM, comprises acting as:

- Trustee, Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors:
 - Magellan Global Fund
 - Magellan Global Fund (Hedged)
 - Magellan Infrastructure Fund
 - Magellan Infrastructure Fund (Unhedged); and
 - Magellan High Conviction Fund (collectively, the Unlisted Magellan Funds);
- Responsible Entity and Investment Manager for Magellan Global Equities Fund (MGE) and Magellan Global Equities Fund (Currency Hedged) (MHG) which are registered managed investment schemes quoted on the Australian Securities Exchange (ASX) under the AQUA rules, and offered primarily to Australian investors (collectively, the ASX Quoted Funds);
- Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF), which is an unregistered managed investment scheme offered to Australian wholesale investors;
- Investment Manager for the MFG Global Fund, a fund authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities (UCITS)) and offered to global institutional clients;
- Sub-adviser to the Frontier MFG Global Equity Fund, Frontier MFG Global Plus Fund and the Frontier MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States (collectively, the Frontier MFG Funds);
- Investment research and administrative services provider to Magellan Flagship Fund Limited (MFF), and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

MFGS acts as a service company providing MAM with services of investment analysts and distribution personnel based in the United States of America. MFGS employs US based personnel and is the lessee of US premises.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are based on the relevant tax rate and included within the Corporate segment as tax is managed on a group basis. Non-Executive Director fees relating to the MAM Board are included in the Funds Management segment.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in the ASX Quoted Funds, the Unlisted Magellan Funds, the Frontier MFG Funds, a select portfolio comprising Australian and international listed companies, cash, other investments and net deferred tax assets/liabilities arising from changes in fair value of these investments. Investments in ASX Quoted Funds and Unlisted Magellan Funds may comprise a controlled fund or associate, usually arising where the Group has initially provided seed capital for the fund.

Corporate

The corporate segment includes interest income on the Company's Share Purchase Plan (SPP) loans and cash (including term deposits), corporate costs including Non-Executive Director fees for MFG, all current tax liabilities and deferred tax assets/liabilities excluding those arising from changes in the fair value of financial assets which are shown in Principal Investments.

No operating segments have been aggregated to form the above reportable operating segments and inter-segment revenues and expenses (where applicable) have been eliminated on consolidation.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

2. Segment Information (continued)

(a) Segment financial results

The operating results of the Group's operating segments, excluding income tax expense, are as follows:

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Total
31 December 2015	\$'000	\$'000	\$'000	\$'000
Revenue				
Management fees	128,295	-	-	128,295
Performance fees	42,815	-	-	42,815
Services fees	4,357	-	-	4,357
Interest income	211	21	790	1,022
Dividend and distribution income	-	339	-	339
Net gain/(loss) on sale of available-for-sale financial assets	-	644	-	644
Net foreign exchange gain/(loss)	622	108	-	730
Group's share of MGE's net profit while MGE was an associate		3,961		3,961
Total revenue	176,300	5,073	790	182,163
Expenses				
Employee expense	21,457	-	6	21,463
Employee expense - SPP	85	-	19	104
Non-Executive Director fees	75	-	53	128
Other expenses	15,538	42	626	16,206
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	-	1,296	-	1,296
Total expenses	37,155	1,338	704	39,197
Operating profit before income tax expense	139,145	3,735	86	142,966
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	6,645	-	6,645
Net (gain)/loss on sale of available-for-sale financial assets	-	(644)	-	(644)
Net loss on deemed disposal of interest in associate - MGE	-	1,296	-	1,296
Other comprehensive income for the half year, before tax	-	7,297	-	7,297
Total comprehensive income for the half year, before tax	139,145	11,032	86	150,263
31 December 2014	Funds Management	Principal Investments	Corporate	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000
Revenue				
Management fees	89,636	-	-	89,636
Performance fees	32,630	-	-	32,630
Services fees	3,425	-	-	3,425
Interest income	297	4	1,015	1,316
Dividend and distribution income	-	700	-	700
Net gain/(loss) on sale of available-for-sale financial assets	-	424	-	424
Net foreign exchange gain/(loss)	279	75	-	354
Total revenue	126,267	1,203	1,015	128,485
Expenses				
Employee expense	14,533	-	10	14,543
Employee expense - SPP	118	-	22	140
Non-Executive Director fees	75	-	132	207
Other expenses	9,824	37	477	10,338
Total expenses	24,550	37	641	25,228
Operating profit before income tax expense	101,717	1,166	374	103,257
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	22,532	-	22,532
Net (gain)/loss on sale of available-for-sale financial assets	-	(424)	-	(424)
Other comprehensive income for the half year, before tax	-	22,108	-	22,108
Total comprehensive income for the half year, before tax	101,717	23,274	374	125,365

(A) Includes elimination of \$1,218,000 income and \$1,218,000 expense under the transfer pricing agreement within the Funds Management segment. Refer to note 9(a) for further details.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

2. Segment Information (continued)

(b) Segment assets and liabilities

The assets and liabilities of the Group's segments are as follows:

	Consolidated Entity				
	Funds Management (A)	Principal Investments	Corporate	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2015					
Cash and cash equivalents ^(A)	27,271	2,172	55,753	-	85,196
Financial assets	349	227,507	-	-	227,856
Receivables and other assets	79,162	53	181	-	79,396
Loans - SPP	-	-	9,844	-	9,844
Total assets	106,782	229,732	65,778	-	402,292
Payables & provisions	15,548	3	110	-	15,661
Tax liabilities	-	17,520	7,326	-	24,846
Total liabilities	15,548	17,523	7,436	-	40,507
Net assets	91,234	212,209	58,342	-	361,785
30 June 2015					
Cash and cash equivalents	29,424	2,084	62,426	-	93,934
Financial assets	349	139,498	-	-	139,847
Receivables and other assets	43,598	12,151	58	-	55,807
Loans - SPP	-	-	7,245	-	7,245
Investment in associate	-	49,845	-	-	49,845
Total assets	73,371	203,578	69,729	-	346,678
Payables & provisions	15,336	7	74	-	15,417
Tax liabilities	-	14,543	13,275	-	27,818
Total liabilities	15,336	14,550	13,349	-	43,235
Net assets	58,035	189,028	56,380	-	303,443

^(A) The Funds Management segment maintains a minimum of \$20,000,000 in liquid assets (including cash and cash equivalents to meet regulatory and operating requirements) (June 2015: \$20,000,000).

At 31 December 2015, MFG's net investment in the funds management business activities was \$13,204,000 (June 2015: \$12,500,000), with \$12,500,000 capital invested in Magellan Asset Management Limited and \$704,000 capital invested in MFG Services LLC. Both entities are controlled by MFG. Refer to note 9(a) for further details.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

3. Earnings per Share (EPS)

	Consolidated Entity	
	31 Dec 2015	31 Dec 2014
Basic EPS		
Net profit attributable to shareholders (\$'000)	109,335	77,408
Weighted average number of shares for basic EPS ('000)	160,488	159,131
Basic EPS (cents)	68.1	48.6
Diluted EPS		
Net profit attributable to shareholders (\$'000)	109,335	77,408
Weighted average number of shares for diluted EPS ('000)	171,644	170,762
Diluted EPS (cents)	63.7	45.3
Reconciliation of earnings used in calculating EPS		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	109,335	77,408

Weighted average number of securities

The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:

Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	160,488	159,131
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ^(A)	869	1,375
- equivalent number of Class B Shares ^(B)	10,287	10,256
Weighted average number of shares used in calculating diluted EPS ('000)	171,644	170,762

^(A) For the half years ended 31 December 2015 and 31 December 2014, the MFG share price was above the MFG 2016 Options exercise price. The MFG 2016 Options are considered to be potential ordinary shares for the purposes of the diluted EPS calculation and have been included in the determination of diluted EPS to the extent they are dilutive.

^(B) The Class B Shares are considered to be potential ordinary shares for the purposes of the diluted EPS calculation and have been included in the determination of diluted EPS to the extent they are dilutive. The equivalent number of Class B Shares for the purposes of calculating the diluted EPS has been determined as the weighted average number of ordinary shares into which the Class B Shares would convert, applying a conversion factor of 0.0637028, and assuming the 932,725 (December 2014: 1,507,754) MFG 2016 Options had been exercised at 1 January 2016.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

4. Dividends

(a) Dividends declared and paid during the half year

	Consolidated Entity	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Fully franked final dividend for the year ended 30 June 2015: - 37.8 cents per ordinary share: paid 26 August 2015	60,584	-
Fully franked final dividend for the year ended 30 June 2014: - 21.8 cents per ordinary share: paid 1 September 2014	-	34,628
Total dividends declared and paid during the half year	60,584	34,628

The final dividend of \$60,584,000 paid on 26 August 2015 (December 2014: \$34,628,000 paid on 1 September 2014) included an amount of \$425,000 (December 2014: \$720,000) relating to the dividend entitlement of share purchase plan (SPP) holders. This amount was not paid in cash but rather applied directly against the holders' SPP loan balances.

(b) Dividend proposed

On 18 February 2016, the Directors declared a fully franked interim dividend of 51.3 cents per share in respect of the half year ended 31 December 2015 (December 2014: 37.1 cents per share). The amount of the interim dividend expected to be paid on 4 March 2016, but not recognised as a liability, is approximately \$82,418,000 (December 2014: interim dividend of \$59,292,000).

(c) Imputation credits

The balance of the imputation credit account at 31 December 2015 is as follows:

	Consolidated Entity	
	31 Dec 2015 \$'000	30 June 2015 \$'000
Imputation credits		
Imputation credits at balance date	38,446	24,869
Imputation credits that will arise from payment of income tax payable	10,524	5,424
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2015: 30%)	48,970	30,293

The payment of the interim dividend declared by the Directors on 18 February 2016 will reduce the imputation credit account balance shown above by approximately \$35,322,000.

5. Income Tax

The Group's estimated effective tax rate was 23.5%, which includes taxes paid in foreign jurisdictions, for the half year ended 31 December 2015 (December 2014: 25.0%). This is below the Australian company tax rate of 30% primarily as a result of the qualifying offshore banking (OB) income, net of costs, of Magellan Asset Management Limited (MAM) attracting a concessional tax rate of 10% given its OBU status. For the six months to 31 December 2015, the effect of the concessional tax rate of 10% was \$8,609,000 (December 2014: \$5,100,000) which was the primary reason the Group's income tax expense for the half year ended 31 December 2015 being reduced to \$33,631,000 (December 2014: \$25,849,000).

The effective tax rate for the full financial year ending 30 June 2016 may change as it depends upon the composition of qualifying OB income of the OBU. Refer to note 1(d) for further detail on the factors that may affect the Group's effective tax rate.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

6. Revenue

(a) Management fees

The management fees received/receivable during the half year were:

	Consolidated Entity	
	31 Dec	31 Dec
	2015	2014
	\$'000	\$'000
Magellan Global Fund	52,085	40,039
Magellan Global Equities Fund ^(A)	2,193	-
Magellan Global Fund (Hedged)	1,304	259
Magellan Global Equities Fund (Currency Hedged) ^(B)	91	-
Magellan Infrastructure Fund	3,824	3,063
Magellan Infrastructure Fund (Unhedged)	1,277	580
Magellan High Conviction Fund	2,028	1,255
Magellan Core Infrastructure Fund	444	692
MFG Global Fund	7,004	4,170
Frontier MFG Funds	4,981	2,944
Other mandates	53,064	36,634
Total management fees for the half year	128,295	89,636

(b) Performance fees

During the half year ended 31 December 2015, performance fees were also earned on the following funds and mandates as the total shareholder return, market index and/or relative hurdles were met:

	Consolidated Entity	
	31 Dec	31 Dec
	2015	2014
	\$'000	\$'000
Magellan Global Fund	23,354	25,161
Magellan Global Equities Fund ^(A)	794	-
Magellan Global Fund (Hedged)	5	54
Magellan Infrastructure Fund	3,566	1,324
Magellan Infrastructure Fund (Unhedged)	1,687	46
Magellan High Conviction Fund	16	2,878
Other funds and mandates	13,393	3,167
Total performance fees for the half year	42,815	32,630

(c) Services fees

Services fees arise from providing investment research and administrative services to Magellan Flagship Fund Limited and research services under a mandate.

(A) This fund was registered on 24 December 2014 and commenced trading on the ASX on 5 March 2015.

(B) This fund was registered on 14 July 2015 and commenced trading on the ASX on 10 August 2015.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

6. Revenue (continued)

(d) Management, services and performance fees by geographic location

The geographical breakdown of the management, services and performance fees is as follows:

	Consolidated Entity	
	31 Dec	31 Dec
	2015	2014
	\$'000	\$'000
Australia	117,911	90,387
United Kingdom & Ireland	30,026	20,472
United States	20,394	12,216
Canada	2,989	2,023
Asia	4,147	593
Total management, services and performance fees	175,467	125,691

(e) Management, services and performance fees by investor type

The breakdown of the management, services and performance fees by type of investor across the global equities and global listed infrastructure strategies is as follows:

	Consolidated Entity	
	31 Dec	31 Dec
	2015	2014
	\$'000	\$'000
Management and services fees		
- Retail	72,430	51,628
- Institutional	60,222	41,433
Performance fees		
- Retail	32,982	28,904
- Institutional	9,833	3,726
Total management, services and performance fees	175,467	125,691
Total Retail	105,412	80,532
Total Institutional	70,055	45,159
Total management, services and performance fees	175,467	125,691

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

7. Financial Assets

	Consolidated Entity	
	31 Dec	30 June
	2015	2015
	\$'000	\$'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits ^(A)	349	349
Total current financial assets	349	349
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	10,248	8,996
- United Kingdom	939	1,116
- Australia	352	387
- France	347	378
- Switzerland	206	323
- Netherlands	243	220
- Germany	-	164
Investments in ASX Quoted funds		
- Magellan Global Equities Fund ^(B)	53,295	-
- Magellan Global Equities Fund (Currency Hedged) ^(C)	14,820	-
Total listed/quoted investments	80,450	11,584
Investments in unlisted funds		
- Magellan Global Fund	96,501	81,208
- Magellan Global Fund (Hedged)	643	625
- Magellan Infrastructure Fund	2,814	2,605
- Magellan Infrastructure Fund (Unhedged)	2,351	2,124
- Magellan High Conviction Fund	26,824	24,478
- Magellan Wholesale Plus Global Fund	5,844	5,535
- Frontier MFG Core Infrastructure Fund	5,027	4,552
- Frontier MFG Global Plus Fund	6,797	6,447
- Other	81	165
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	147,057	127,914
Total non-current financial assets	227,507	139,498

(A) Comprises term deposits of \$349,000 (June 2015: \$349,000) which are held with an Australian bank and pledged against bank guarantees in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the bank has the right to apply the deposits in settlement of the amount paid by the bank under the guarantees.

(B) This fund was registered on 24 December 2014 and commenced trading on the ASX on 5 March 2015. At 30 June 2015, MFG was assessed to have significant influence over the operations of the fund with a 24.3% ownership interest. As a result, MFG's investment in the fund was accounted for as an investment in associate at 30 June 2015. On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale asset. Refer to note 9(b) for further details.

(C) MFG seeded the fund on 4 August 2015 with a \$15,000,000 investment. This fund commenced trading on the ASX on 10 August 2015. The investment is accounted for as an available-for-sale asset. Refer to note 9(c) for further details.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

7. Financial Assets (continued)

Reconciliation

The movement in the carrying value of Group's financial assets is as follows:

	Consolidated Entity	
	31 Dec 2015 \$'000	30 June 2015 \$'000
Current		
Opening balance at 1 July	349	302
Cash placed on term deposit	-	47
Closing balance	349	349
Non-current		
Opening balance at 1 July	139,498	125,558
Acquisitions ^(A)	83,123	19,389
Disposals	(1,115)	(29,564)
Net changes in fair values of investments	6,001	24,115
Closing balance	227,507	139,498

(A) The 31 December 2015 balance includes a reclassification to financial assets of the holding in MGE at Fair Value (\$54,106,000) from Investment in Associate upon loss of significant influence on 12 August 2015.

8. Fair Value Measurements

The Group classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange.
- Level 2: valuation techniques using market observable inputs either directly or indirectly. The Group invests in unlisted funds which in turn invest in liquid securities quoted on major stock exchanges. The fair value is estimated using the redemption price provided by the unlisted fund.
- Level 3: valuation techniques using non-market observable inputs. The Group invests in unlisted funds which typically invest in unlisted entities, and has an investment in an unlisted company. The fair value is based on a Directors' valuation.

The table below presents the fair value measurement hierarchy of the Group's financial assets:

	Note	Consolidated Entity	
		31 Dec 2015 \$'000	30 June 2015 \$'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares and ASX Quoted units		80,450	11,584
- Level 2: unlisted funds - Magellan and Frontier MFG Funds	(i)	146,801	127,574
- Level 3: unlisted funds - other	(ii)	81	165
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		227,507	139,498

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

8. Fair Value Measurements (continued)

(i) Unlisted funds – Magellan and Frontier MFG Funds

The fair value of investments in the Magellan Unlisted Funds operated by the Group and the Frontier MFG Funds is determined with reference to the redemption price at reporting date. They are categorised as Level 2 in the fair value hierarchy on the basis that the inputs into the redemption unit price are directly observable from published price quotations.

(ii) Unlisted funds – Other

Investments in Unlisted funds – Other comprise an investment in a single private equity fund. As there is no active market for these units, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. A discount is applied to the fund's redemption unit price, as determined by the fund's investment manager, to reflect the illiquidity of the units. The Directors believe the estimated fair value, based on other unlisted fund's valuation undertaken by that fund's investment manager, and the discount assumptions applied, is reasonable and appropriate.

(iii) Unlisted shares - Other

Investments in Unlisted shares – Other comprises a shareholding in an unlisted funds management business. As there is no active market for the shares, the Directors have valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

There were no transfers between any of the three levels in the hierarchy during the half years ended 31 December and full years ended 30 June, and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period.

The reconciliation of the fair value movements within level 3 is shown below:

	Consolidated Entity	
	31 Dec 2015 \$'000	30 June 2015 \$'000
Opening balance - 1 July	340	340
Net changes in fair value	(84)	-
Closing balance	256	340

The fair value of all other financial assets and liabilities approximate their carrying values in the Consolidated Statement of Financial Position with changes for the period taken through the Consolidated Statement of Profit or Loss.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

9. Controlled Entities and Interests in Other Entities

(a) Controlled Entities

The Group's controlled entities are set out below:

Name of entity	Country of incorporation and principal place of business	Ownership interest	
		31 Dec 2015	30 June 2015
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
MFG Services LLC	United States of America	100%	-

Magellan Asset Management Limited (MAM) and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held directly by Magellan Financial Group Limited (MFG), and the proportion of ownership interests held equals the voting right held by MFG. The country of incorporation is also the principal place of business.

MFG Services LLC (MFGS), a Delaware limited liability company, was formed on 3 August 2015. MFGS is a service company operating in the United States of America and provides MAM with investment research and distribution services. MFGS has share capital consisting solely of one common interest that is held directly by MFG, and its proportion of ownership of MFGS equals the voting right held by MFG.

Transactions between MFGS and MAM are subject to transfer pricing arrangements. Transfer pricing is determined on a cost plus basis.

(b) Investment in Associate

At 30 June 2015, the Group had a 24.3% interest in Magellan Global Equities Fund (MGE), which is a fund quoted on the ASX under the AQUA Rules, and was accounted for as an associate in the consolidated financial statements.

The Group's investment in MGE was classified as an associate until 12 August 2015. On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale asset. At 31 December 2015, the Group had a 12.2% interest in MGE (refer to Note 7 for further details).

During the period of 1 July 2015 to 12 August 2015, when MGE was classified as an associate, the Group recognised a gain of \$3,961,000 in the Consolidated Statement of Profit or Loss representing the Group's share of the associate's net profit for that period. Due to the deemed disposal of the interest in MGE as an associate on 12 August 2015, the Group transferred a loss of \$1,296,000 to the Consolidated Statement of Profit or Loss from the Consolidated Statement of Other Comprehensive Income relating to the prior financial year. This loss of significant influence has been accounted for in accordance with note 1 (b) iv) in the Group's 30 June 2015 Annual Report.

(c) Interests in Other Entities

The Group's investments in other entities are set out in note 7.

During the half year ended 31 December 2015, Magellan Global Equities Fund (Currency Hedged) was seeded by the Group with \$15,000,000 on 4 August 2015. This fund commenced trading on the ASX on 10 August 2015. The Group has classified this investment as an available-for-sale asset. Refer to Note 7 for details of this investment as at 31 December 2015.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

10. Contributed Equity

		Consolidated Entity	
		31 Dec	30 June
		2015	2015
		\$'000	\$'000
	Note		
Ordinary Shares	(a)	108,512	103,477
MFG 2016 Options	(b)	-	-
Class B Shares	(c)	-	-
Total contributed equity		108,512	103,477

Consolidated Entity				
	31 Dec	30 June	31 Dec	30 June
	2015	2015	2015	2015
	Number	Number	\$'000	\$'000
	'000	'000		
(a) Ordinary Shares				
Opening balance	160,276	158,842	103,477	93,812
Shares issued on exercise of MFG 2016 Options	117	848	310	2,241
Shares issued under SPP	266	586	4,631	7,063
SPP expense for the period	-	-	104	378
less: transaction costs arising on share issue	-	-	(10)	(17)
Closing balance - Ordinary Shares	160,659	160,276	108,512	103,477
(b) MFG 2016 Options				
Opening balance	1,050	1,898	-	-
Exercise of MFG 2016 Options	(117)	(848)	-	-
Closing balance - MFG 2016 Options	933	1,050	-	-
(c) Class B Shares				
Opening balance	10,200	10,200	-	-
Closing balance - Class B Shares	10,200	10,200	-	-

Terms and conditions

(i) Ordinary shares

Fully paid ordinary shares entitle the holder to receive dividends declared and proceeds on winding up the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

(ii) MFG 2016 Options

MFG 2016 Options ('Options') expire on 30 June 2016 but can be exercised during any two month period commencing two business days following the announcement of the Group's full and half year results in each year prior to the expiry date, except for the final exercise period which commences on the date that is two business days after the release of the results for the half year to 31 December 2015 and ends on 30 June 2016. Upon exercise of the Option, the Option holder is issued one new ordinary share in the Company.

The exercise price of the MFG 2016 Options at 31 December 2015 is \$2.6411 (June 2015: \$2.6411).

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

10. Contributed Equity (continued)

Terms and conditions (continued)

(ii) MFG 2016 Options (continued)

Options are not entitled to dividends or distributions. Ordinary shares issued on exercise of the Options rank equally with all other ordinary shares from the date of issue. An ordinary share issued on exercise of an Option is only entitled to receive a dividend or distribution where the Option was exercised and the ordinary share is issued on or before the record date for that distribution. Ordinary shares issued pursuant to the exercise of an Option will not be issued until after the record date for any dividend or distribution payable in respect of the half year period immediately prior to the exercise period during which that Option was exercised. The holder of an Option may only participate in new issues of the Company if the holder exercises that Option and becomes the holder of ordinary shares on or prior to the record date for the new issue of ordinary shares.

(iii) Class B shares

The Class B Shares were issued to Mr Hamish Douglass with certain service conditions which were satisfied on 1 July 2012. Incorporating the effect of the in-specie distribution made to the Company's shareholders on 19 February 2013, the Class B Shares will convert into the number of ordinary shares equal to 0.0637028 times the number of ordinary shares of the Company on issue on 21 November 2016 (up to a maximum of 170,000,000 ordinary shares). The conversion of the Class B Shares will occur on the first business day after 21 November 2016. The maximum number of ordinary shares that will be issued on conversion of all Class B Shares is 10,829,476. Prior to the in-specie distribution, the conversion factor was 0.06 times and the maximum number of ordinary shares that would have been issued on conversion was 10,200,000.

Mr Douglass holds 10,200,000 Class B Shares which at 31 December 2015 were entitled to convert into 10,290,344 ordinary shares of the Company on 21 November 2016.

Based on the Company's ordinary shares on issue and assuming all Options were fully exercised as at 31 December 2015, the 10,200,000 Class B Shares would be entitled to convert to 10,293,856 ordinary shares being equal to 0.0637028 times 161,591,888 securities at 31 December 2015 (comprising 160,659,163 ordinary shares on issue and 932,725 Options). The Class B Shares have no entitlement to receive dividends and until the Class B Shares are converted into ordinary shares they confer no rights to participate in any bonus issue or subscribe for new securities in the Company unless the Directors determine otherwise in accordance with the Terms of Issue of the Class B Shares.

MAGELLAN FINANCIAL GROUP

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2015

11. Contingent Assets, Contingent Liabilities and Commitments

(a) Commitments

Operating lease commitments

The Group has entered into non-cancellable operating leases for its office premises in Australia (Sydney, Melbourne and Brisbane), the United States (New York and Newport Beach) and New Zealand (Auckland) and for office equipment.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated Entity	
	31 Dec 2015 \$'000	30 June 2015 \$'000
Within one year	1,126	814
Later than one year but no later than five years	10,037	764
More than five years	17,453	-
Total commitments	28,616	1,578

During the period the Group entered into a 10 year lease for its headquarters in Sydney and a 7 year lease for premises in New York which are reflected in the commitments disclosed above.

(b) Contingent assets and contingent liabilities

At 31 December 2015, the Group has a contingent liability of \$150,000 (June 2015: \$200,000) in relation to the investment restriction contract entered into with Mr Hamish Douglass on 1 July 2012. Assuming the conditions of the contract are complied with, which requires Mr Douglass to remain in employment until 1 July 2017, the Group is required to pay Mr Douglass \$500,000 on or before 15 July 2017. At 31 December 2015, \$350,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2015: \$300,000) and as a result, the Group has a contingent liability of \$150,000 (June 2015: \$200,000).

(c) Guaranty entered into by MFG

During the half year ended 31 December 2015, a guaranty was provided by MFG to the landlord of MFGS's New York office premises guaranteeing the payment and performance of MFGS's obligations under the lease.

The Group has no material contingent assets as at 31 December 2015 (June 2015: nil).

12. Events Subsequent to Reporting Date

On 18 February 2016, the Directors declared a fully franked interim dividend of 51.3 cents per share in respect of the half year ended 31 December 2015 (refer to note 4(b) for further details).

On 4 February 2016, the Group reported on the ASX its funds under management were \$39.6 billion as at 31 January 2016.

As a consequence of entering into the lease for the Group's new Sydney headquarters, the Group placed \$1,584,000 on term deposit and pledged this against a bank guarantee securing the Group's obligations under both its lease and works and incentive deed.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

MAGELLAN FINANCIAL GROUP

DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 14 to 35 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

This declaration is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

Sydney, 18 February 2016

INDEPENDENT REVIEW REPORT



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Report on the Half-Year Financial Report

To the members of Magellan Financial Group Limited

We have reviewed the accompanying half-year financial report of Magellan Financial Group Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Financial Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

MAGELLAN FINANCIAL GROUP

INDEPENDENT REVIEW REPORT



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magellan Financial Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Rita Da Silva'.

Rita Da Silva
Partner
Sydney
18 February 2016

MAGELLAN FINANCIAL GROUP

CORPORATE INFORMATION

Directors

Brett Cairns – Executive Chairman
Hamish Douglass – CEO and Chief Investment Officer
Robert Fraser
Paul Lewis
Karen Phin

Company Secretary

Geoffrey Stirton

Registered Office

Magellan Financial Group Limited
Level 7, 1 Castlereagh Street
Sydney NSW 2000
Telephone: +61 2 8114 1888
Fax: +61 2 8114 1800
Email: info@magellangroup.com.au

Auditors & Taxation Advisors

Ernst & Young
680 George Street
Sydney NSW 2000

Share Registrar

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG
ASX code (listed options): MFGOC

Website

<http://www.magellangroup.com.au>

Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Corporate Governance tab at <http://www.magellangroup.com.au>